

**The Importance of Operational Reasons  
to Budget for Two Budget Forms, and  
their Relationship to Organisational  
Characteristics**

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**A thesis submitted in fulfillment of the  
requirements for the degree of  
Doctor of Philosophy**

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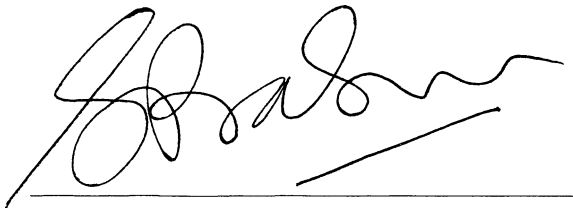
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## **Certificate of Authorship/Originality**

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I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

Signature of Candidate

A handwritten signature in black ink, appearing to read 'Prabhu Sivabalan', written over a horizontal line.

Prabhu Sivabalan

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# Abstract

This thesis investigates a range of operational reasons to budget, their relation to the fixed budget and rolling forecast forms, and their relationships with selected organisational characteristics. Notwithstanding repeated practitioner and academic criticisms of budgeting, budgets appear to be used by most organisations. Why do organisations continue to budget, if budgets are repeatedly criticised? Prior research has suggested that most budget research, and budget criticisms relate to a budget's use for performance evaluation. Following Hansen and Van der Stede (2004), this thesis argues that the disconnect between the high use, and low perceived usefulness of budgeting in practice may be explained by considering the impact of other non-evaluation operational reasons to budget used in practice. This rationale is investigated through three inter-related studies, using a combination of quantitative cross-sectional survey and qualitative case data.

The first study investigates the importance of ten operational reasons to budget, for the fixed budget and rolling forecast forms. Findings show that organisations conduct budgeting for a range of reasons, and that non-evaluation operational reasons to budget such as “control costs”, “coordinate resources” and “board of director monitoring” are more important than the “staff evaluation” reason to budget most often studied in existing research. The first study also found that this range of operational reasons to budget were important for both fixed budgets and rolling forecasts.

The second study investigates relationships between the importance of four of the ten operational reasons to budget (coordinate resources, formulate action plans, staff evaluation and business unit evaluation), and three major organisational characteristics (strategy, autonomy and uncertainty) for both budget forms. The four operational reasons to budget were an elaboration of the two broader operational reasons to budget (operational planning and performance evaluation) proposed by Hansen and Van der Stede (2004). Findings show that contingency relationships between the four operational reasons to budget and organisational characteristics are often different to that found in or implied by prior research. Also, in many instances, relationships for the two detailed reasons to budget within each of Hansen and Van der Stede's (2004) broader reasons and organisational characteristics were different. This supports the need to consider more detailed operational reasons to budget in future budget research.

The final study investigates an organisational setting where a dominant non-evaluation reason to budget had a different contingency relationship to that found in existing budget research. Existing research has argued that in low uncertainty conditions, organisations with a high level of budget emphasis require high budget participation (Lau, et al. 1995). The case organisation operates in low uncertainty conditions, and has high budget emphasis. However, it attained significantly increased budget benefits when it changed from high to low levels of budget participation. The main reason for this difference is that prior research has

conceptualised and measured budget emphasis predominantly from the perspective of a budget's use for staff evaluation. However, the case organisation primarily uses budgets for resource coordination. Its pattern of budget emphasis is more complex, being low for staff evaluation but high for resource coordination. The case emphasises the need for budget research to consider a range of operational reasons to budget other than staff evaluation, in order to understand the nature of the contingency relationships between organisational characteristics and established budgetary variables such as budget emphasis and participation. Different operational reasons to budget appear to impact the nature of these contingency relationships, and therefore, should be acknowledged in budget research.

Overall, this thesis confirms that a range of operational reasons to budget are regarded as important by organisations, and that reasons such as “coordinating resources” and “formulating action plans” are often more important than staff evaluation, the dominant reason considered in extant budgeting studies. This may impact the nature of contingent relationships found in existing research.